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New Zealand

Agricultural Situation

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Report Highlights:

New Zealand pursues trade agreements

WTO lamb ruling

Drought impact

Pipfruit Industry Facing Deregulation

Dairy price optimism

Venison demand strong

Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Wellington [NZ1], NZ

GENERAL

New Zealand pursues trade agreements

The New Zealand Minister for Trade Negotiations has been in North America pursuing support for a free trade agreement, particularly in agriculture and services. He also discussed progress towards a new round of multilateral trade negotiations in the WTO. He first went to Canada to meet the Trade Minister and then the Minister of Agriculture, and opened a new trade office in Toronto. He also met for the first time with the new US Secretary of Agriculture and new US Trade Representative and other officials. He also toured the Netherlands, Belgium, France and Germany, meeting with Trade and Agriculture Ministers. New Zealand concluded a CEP (common economic partnership or basically a free trade agreement) with Singapore which went into effect on January 1, 2001, and is negotiating a CEP with Hong Kong.

Drought impact

The impact of the current drought in New Zealand is estimated so far to cost around NZ \$300 million (US \$123 million) in lost farming income so far according to banking experts. The \$300 million in lost income would slice about 0.3% off expected economic growth but the overall impact of the drought might be minimal because it came quite late in the season, after much of the production was already through.

Exports Jump to Iran

Iran, the most popular country in the Middle East, is becoming one of New Zealand's fastest-growing export markets. Exports have jumped from virtually nothing through most of the 1990's to NZ \$120 million (US \$49.2 million) last year, mainly in dairy products, electronics and wool. By contrast, New Zealand imports an insignificant NZ \$7 million (US \$2.9 million) worth of goods, mainly carpets, grapes and dates.

Pharmaceutical interest in New Zealand

American investors in pharmaceuticals and biotechnology reportedly are recognizing New Zealand as one of the world's premier sources for animal sera and protein products. These products are used in treatments and potential treatments for a range of conditions, including HIV, cystic fibrosis and multiple sclerosis. The reason for interest is because of New Zealand's protected environment, strict agricultural regulations and high standards of husbandry and care, and disease free status compared to many overseas countries. On July 27, the Royal Commission on Genetic Modification (GM) will provide its report and recommendations to the Government on the strategic options for New Zealand with respect to genetic modification. This report will have important policy implications for GM products, including pharmaceuticals. A voluntary moratorium on commercial release into the environment of GM products and on new GM field trials (with limited exceptions) currently runs until August 31.

HORTICULTURE

Pipfruit Industry Facing Deregulation

The New Zealand Government has decided in principle to open up export opportunities for pipfruit growers. From October 1, 2001, the apple and pear export regulations would be revoked. This would give growers a choice of exporters who would all compete on an equal footing. The Minister of Agriculture has said the current situation where ENZA had a statutory and dominant position was not sustainable in the long term (for more information see NZ10 ?).

Zespri considers funding shortfall

The Zespri Board met this week to discuss the kiwifruit industry's future funding. The grower share offer, which it was hoped would raise US \$6.6 million, closed earlier this month with only about US \$3.3 million being contributed. Zespri officials noted that if growers did not put up the money it would have to look at other options to replace the promissory notes that need to be repaid to growers over the next two years. But many growers are nervous about outside money coming into the industry and would be happy to have Zespri make do with the money which has been raised. It is understood that many did not contribute to the offer because of tax payments from last season being due.

FORESTRY***Wood potential targeted***

The NZ Government is working on a plan to turn forestry and wood processing into the top foreign exchange earner. The aim was to process 50% of harvested trees, which would create another 2000 jobs in the Gisborne region alone. At present about, about a quarter of harvested trees are further processed.

Forestry sets sights on China

The Ministry of Agriculture and Forestry is moving to cultivate a multi-million dollar timber market in China with the signing of a memorandum of understanding with the Chinese forestry administration. New Zealand exports only half a million cubic meters of wood to China, just 2 percent of its total forestry imports. China's total appetite for wood is 60 million cubic meters a year. A delegation of top officials from the Chinese State Forestry Administration was in New Zealand in mid-May to formalize the relationship.

DAIRY***Dairy price optimism for next season***

The outlook for dairy prices is optimistic, with a prediction that commodity prices will stay at their present high levels. Milk production is likely to total 1,000,050,000 kg MS this season. A global dairy company spokesman predicts an approximate NZ \$4.50/kg MS (US \$1.85) price being paid by the Dairy Board this season.

Australian dairy deal on its way

The way is clear for the New Zealand Dairy Board to complete the first trans-Tasman dairy alliance. Shareholders in the Bega Dairy Co-operative in southern New South Wales have voted unanimously to become part of the Bonlac foods-NZ Dairy Board merger. The deal will net Bega A \$35 million, a licensing fee for its brand- the biggest selling cheese in Australia- and the transfer of Bolnac's Melbourne cheese production to the Bega plant. As well, the Supreme Court of Victoria approved a scheme establishing a new company to be 100%-owned by Bonlac supplier shareholders. That company will in turn own a 75% stake in Bonlac Foods, with the New Zealand Dairy Board holding the other 25%. The cost to the Board is A\$80 million.

Dairy Board targets low-lactose sales

The New Zealand Dairy Board is formulating products for lactose-intolerant consumers to boost its US \$123 million a year sales to China. The company supplies a third of China's 200,000 tons a year of dairy imports, mostly used as a source of protein in food processing. Still, the Board

wants to increase sales to China to more than US \$164 million a year by selling more higher value products such as milk powders and cheese.

Calves on tight market

The dairy industry expects around 1.1 million bobby calves will be processed this season, about the same number as in 2000. While more calves will be born, the demand for Friesian calves for beef herds will be extremely strong and, with the dairy industry itself continuing to expand, more heifer calves will be retained. Industry officials also expect access to export markets for veal will be tougher this year because of Northern Hemisphere problems with foot-and-mouth disease and concerns about BSE.

LIVESTOCK

WTO confirms lamb ruling

The New Zealand meat industry has praised the World Trade Organization's Appellate Body ruling that the US import safeguard imposed in July 1999 on imports of New Zealand and Australian lamb is inconsistent with the WTO Safeguards Agreement and that it should be brought into conformity with that Agreement. The New Zealand Trade Minister has expressed confidence that the USG will comply with the decision (in June the US is to inform the Dispute Settlement Body of its intentions with respect to implementing the recommendation). Meat industry officials note that the US market was worth NZ\$180 million last year, which could have exceeded NZ\$200 million without the restrictions. Hence, the tariffs are estimated to have cost NZ farmers nearly NZ\$20 million (US\$8.6 million).

Industry officials expect they will be able to resume the steady growth in lamb shipments to the US and note that they have not been idle in the US market over the last two years. They have used that time to consolidate their trading network. This has helped by continuing steady demand at the upper end of the US market range for high quality lamb products.

Crown funding for TB

The NZ Government is to increase its financial contribution to the national Bovine TB (tuberculosis) strategy administered by the Animal Health Board to NZ \$33.5 million (US \$13.7 million) from July 1 this year, up from NZ \$20.4 million (US 8.4 million) last financial year. In the future, the Crown will fund about 50 percent of the national Bovine TB strategy, with industry paying about 40 percent and local councils about 10 percent. New Zealand's target is to be free from Bovine TB by June 2013.

Levy cut welcomed

The New Zealand Wool Board has announced a reduction in the wool levy from 5% to 2%. Meat and fibre producers had been consistently calling for an end to levy-funded promotional activity, and welcomed the decision. Levy payers had wanted overwhelmingly to reduce the levy to 1% and supported the Board's view that this was a step towards that goal.

Venison demand strong

The strong demand for venison in Europe continues and the outlook is very positive for NZ venison according to exporters. There was a 17% lift in deer slaughter numbers from October 2000 to March 2001 compared to the same period the previous year, although the increase for the

whole year to 31 March was only 7 percent. Current venison price schedules are up 32% on the same time last year and 60% up on 1999.

Calves retained for beef

There was a dramatic rise in the number of dairy calves retained for beef production last spring. In 1999, calf retention rose 18% to 619,000, with the prediction that they would rise to 710,000 in 2000. But the NZ Beef Council has indicated the figure was actually 719,000 a 32 percent increase. Industry officials are predicting that beef cattle numbers will increase by 5.1% in the North Island and 4.2% in the South Island in the year to June 2001.

Booroola gene located

Agricultural scientists led by a New Zealand researcher have found the location on the sheep genome of the booroola gene which boosts the number of offspring. AgResearch in NZ has filed for a patent on the booroola gene prolificacy after the break through, which is expected to boost the understanding not only of fertility in sheep but also in other mammals, including humans.

ORGANICS

New organic standards inevitable

New organic industry standards would seem to be on their way after a Parliamentary Select Committee investigation into organic farming called for new regulations. The committee has spent nearly a year listening to reports from industry experts and reviewing some 122 submissions. It has called for a minimum standard to be set for organic produce, together with a requirement for the farming involved to be environmentally sustainable. A committee spokesman said that New Zealand exports of organic produce are expected to jump to over US \$205 million in 2006 as the country benefits from the global trend to clean, safe foods. Organic market opportunities are being pursued by bodies such as the New Zealand Dairy Board, Meat New Zealand, Heinz Wattie, and the apple and kiwifruit sectors.